

Good News! Bank of Canada Holds Overnight Rate at 1.75%

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Some encouraging news for Canadian homebuyers and homeowners: Following the Bank of Canada's July 10th announcement, Canadians know that the overnight rate will stay at 1.75% until at least September 4. This means anyone in the real estate market has some extra time to evaluate their buying options without fear of losing out on a favourable borrowing interest rate.

"If you're interested in mortgages or have consumer loans – that's very good news," says Wes Sudsbury, mortgage broker, Homeguard Funding, Newmarket, Ont. and president of the Canadian Mortgage Brokers Association's Ontario Chapter's board of directors. "The 1.75% rate gives first-time buyers as well as secondary trade-up buyers the confidence to get into the market or make a move."

Positive Mortgage News

The fact the Bank of Canada decided not to change the overnight rate, also known as the key policy rate, for the sixth straight date is a positive sign for buyers and sellers. The Bank of Canada has just two additional opportunities to adjust the overnight rate this year, September 4 and December 4. Predicting the Bank of Canada's next move is virtually impossible, but let's focus on what we do know right now.

“The continued 1.75% overnight rate alleviates consumer concerns about continued hikes and rising interest rates,” says Rob Regan-Pollock, senior mortgage broker, Invis Inc., and co-chair of the Canadian Mortgage Brokers Association. “Mortgage payments will be stable and may even be on the way down which is sparking consumer curiosity and interest in purchases.”

What is the Overnight Rate?

Many consumers mistakenly assume the overnight rate, which influences the prime rate, impacts all mortgages, but it affects only variable mortgage rates, consumer loans and other forms of lending. Meanwhile, the Bank of Canada’s bond yields have the greatest impact on fixed rate mortgages.

Buyers and homeowners need to carefully consider their future goals and work with mortgage brokers that will take the time to understand their real needs. The best mortgage brokers will develop a relationship with their clients and put the clients’ financial interests before their own.

“We need to understand their long-term goals and unique circumstances to give them the most relevant advice,” says Regan-Pollock.

Fixed Rate vs Variable Rate Mortgage

Right now, variable rate mortgages cost more than most fixed rate mortgages. This could be exactly the right time to consider buying your first home, moving up and even refinancing with the support of your mortgage broker.

With current five-year fixed rates below 3%, you should speak with your mortgage broker about whether locking in is in your best interest. Fixed rates offer long-term security and cost certainty. Currently a fixed rate may also increase your short-term cash flow.

Whenever considering a fixed or a variable rate, ensure your short- and long-term financial goals are communicated to your mortgage broker. Mortgages are not always about the best rate and your mortgage broker will be able to provide you with sound advice to help you achieve your goals at the lowest cost. Understanding the pros, cons, features and anticipated costs/early exit penalties associated with your mortgage is key to making the right choice.

The Right Time to Review

“Ideally, your mortgage broker and lender will check in with you at least once a year, and better yet quarterly or even monthly if your rate is variable,” says Sudsbury. “However, it is your money, so ultimately, your financial wellbeing is your responsibility and you need to be

aware.”

This is a good time to review your portfolio and consider adjustments that suit your lifestyle, budget and financial circumstances as well as your personal tolerance for risk.

Adds Regan-Pollock, “It’s a good time to buy, particularly in Vancouver where we’ve seen more inventory and price corrections.”

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